

**COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

RE: DISCOUNT RATE PENETRATION

DTE 01-106-B

NSTAR COMPANIES

DTE 05-55

MASSACHUSETTS ELECTRIC COMPANY

DTE 05-56

**COMMENTS OF THE MASSACHUSETTS COMMUNITY ACTION PROGRAM
DIRECTORS' ASSOCIATION AND
THE MASSACHUSETTS ENERGY DIRECTORS ASSOCIATION
ON PROPOSED ALTERNATIVE COST RECOVERY MECHANISM**

I. INTRODUCTION

On September 27, 2005 the Department proposed an alternative cost recovery mechanism ("ACRM") to address additional costs utilities may incur in enrolling customers on discount rates. The Department took this step recognizing that the automatic discount rate enrollment procedures that are under way will likely lead to a substantial increase in the number of customers on those rates, thus also leading to a reduction in revenues relative to the non-discounted residential rates that would otherwise apply. The Department was also responding to cost-recovery mechanisms filed by the NSTAR companies in DTE 05-55 and by Massachusetts Electric Company/Nantucket Electric Company in DTE 05-56. The Department allowed parties until September 30 to file comments on the ACRM. The Massachusetts Community Action Program Directors' Association and Massachusetts Energy Directors Association (collectively, "MASSCAP") offer these comments. MASSCAP is deeply grateful to the Department and to the companies for the extensive efforts undertaken to get the automatic enrollment process to the point that companies are actually enrolling customers on the discount rates automatically. These efforts are particularly valuable to low-income customers as the winter of 2005-06 approaches, with prices certain to be at unprecedentedly high levels.

II. SUMMARY OF THE DEPARTMENT’S ACRM AND MASSCAP RESPONSE

The key conceptual aspects of the Department’s proposal¹ are (i) to set a “baseline amount of the low-income discount that is collected through base rates for the twelve months ending June 30, 2005”; (ii) to allow companies to collect any excess over the baseline amount in the event total discount rate enrollment increases (through net increases in the sum of automatic enrollment and traditional enrollment),; and (iii) to not require the companies to refund to customers any reduction in the baseline amount due to declines in total enrollment.

MASSACAP begins by reiterating the key conceptual point it raised in its comments filed September 12: that any cost-recovery mechanism should leave companies economically indifferent to whether total discount rate enrollment increases or declines. As more specifically noted in oral comments at the September 16, 2006, companies should not face an economic loss if total enrollment increases and more customers pay the lower, discounted rates. Similarly, companies should not reap a windfall if total discount rate enrolment falls and more customers pay the full, cost-of-service based rates.

The Department’s ACRM proposal fully addresses the policy goal of making sure companies are not harmed if enrollment increases. However, the proposed ACRM allows companies to reap a windfall if total enrollment declines. The more total discount rate enrollment declines at any company, the larger would be the windfall relative to the June 30, 2005 baseline amount.

This is not a theoretical point, as discount rate enrollment through traditional means has

¹ MASSCAP supports and will not offer further comment on the following details of the ACRM: the RAAF (“Residential Assistance Adjustment Factor”) effective date of November 1, 2005; prospective calculation of the RAAF; periodic filing deadlines; and prime interest rate.

in fact declined from time to time at a number of companies, nor is it an economically insignificant point, as discount rate enrollment has declined quite substantially at some companies.² MASSCAP therefore strongly urges the Department to provide for adjustments to the baseline amount in both directions, up or down, to remove what would amount to a financial incentive for companies to tolerate declines in total discount rate enrollment. While automatic enrollment appears to be working very well, with current projections being that at least 24,000 new customers will be added through this technique, the large majority of customers will still be enrolled through traditional methods. Maintaining enrollment among customers who initially enrolled through traditional means takes some effort, such as periodically recertifying those households as eligible, or removing them if they are ineligible. Under the Department's ACRM, the companies that do the best job of maintaining enrollment may receive no financial reward, while the companies that do the worst job will reap a windfall, as the following simplified example makes clear (example assumes lost revenues per discount customer = \$100/yr.):

(table appears on next page)

² The DOER maintains historical data on discount rate enrollment levels by month for electric companies, "Electric Company Migration Data," available at <http://www.mass.gov/doer>. Looking just at NSTAR, discount rate enrollment dropped from 37,174 in June 2003 to 35,251 in June 2004 to 29,307 in June 2005, a total two-year decline of 21% (almost 8,000 households). These data show that declines in discount rate enrollment can be quite significant. Assuming the average per-customer difference between the discount rate and regular residential rate is only \$100 per year, a decline of 8,000 low-income customers would lead to an \$800,000 windfall under the Department's ACRM.

	COMPANY A	COMPANY B
June 05 # customers	10,000	10,000
Baseline rev. loss @ \$100	\$1,000,000	\$1,000,000
June 06 # customers	7,000	10,000
June 06 (actual) rev. loss	\$700,000	\$1,000,000
ACRM rate adjustment	\$0	\$0
Windfall (actual v. baseline loss)	\$300,000	\$0

As the example makes clear, a company that does a good job of maintaining total enrollment gets no adjustment while a company that fails to maintain total enrollment, for whatever reason, gets a windfall. Given that traditional enrollment has declined substantially at some companies in the past, the Department should not allow this to happen in the future without any consequence to the company. Particularly because automatic enrollment is just beginning and will add large numbers of customers to the baseline amount, the fact that total enrollment could decline post-June 2005 at any company might be a real sign that something is wrong with that company's efforts to enroll customers through the traditional methods and maintain enrollment of those customers over time. In that event, the ACRM should not treat such a company identically to a company that successfully maintains enrollment.

III. CONCLUSION

MASSCAP again thanks the Department and the companies for making automatic enrollment a success. In general, MASSCAP supports the proposed ACRM. However, MASSCAP strongly urges the Department to make the changes to the baseline amount symmetrical, that is, requiring adjustments not only for increases but also for decreases to the

baseline amounts. This is an important policy point because there have been significant declines in traditional enrollment in the past, and the Department should not allow the ACRM to unintentionally reward companies that may experience similar declines in the future.

Respectfully submitted,

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